THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

December 31, 2010 and 2009

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010 and 2009

	Notes	2010 SAR'000	2009 SAR'000
ASSETS			
Cash and balances with SAMA	4	**1,442,081**	1,527,905
Due from banks and other financial institutions	5	**8,043,122**	5,265,973
Investments, net	6	**8,060,011**	10,736,859
Loans and advances, net	7	**31,001,899**	29,784,804
Investments in associates	8	**864,749**	817,309
Property and equipment, net	9	**747,852**	706,645
Other assets	10	**1,331,519**	1,308,516
Total assets		**51,491,233**	50,148,011
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**4,896,013**	3,211,950
Customer deposits	13	**37,215,142**	38,247,429
Other liabilities	14	**738,704**	760,502
Term loan	15	**500,000**	500,000
Total liabilities		**43,349,859**	42,719,881
Equity			
Equity attributable to equity holders of the Bank			
Share capital	16	**4,500,000**	4,500,000
Statutory reserve	17	**2,526,000**	2,418,000
Other reserves		**(19,420)**	(284,548)
Retained earnings		**1,124,436**	803,101
Employee stock option shares	36	**(27,751)**	(44,490)
Total equity attributable to equity holders of the Bank		**8,103,265**	7,392,063
Non controlling interests		**38,109**	36,067
Total equity		**8,141,374**	7,428,130
Total liabilities and equity		**51,491,233**	50,148,011

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED INCOME STATEMENT

For the years ended December 31, 2010 and 2009

	Notes	2010 SAR'000	2009 SAR'000
Special commission income	19	**1,674,386**	1,842,523
Special commission expense	19	**359,422**	828,104
Net special commission income		**1,314,964**	1,014,419
Fee income from banking services, net	20	**241,722**	239,986
Exchange income, net		**27,741**	28,688
Dividend income	21	**41,053**	21,702
Gains on non-trading investments, net	22	**123,336**	85,910
Gain on sale of property and equipment	9	**442**	126,453
Total operating income		**1,749,258**	1,517,158
Salaries and employee-related expenses		**333,691**	308,866
Rent and premises-related expenses		**62,972**	59,817
Depreciation and amortization	9	**57,397**	51,673
Other general and administrative expenses		**105,217**	119,055
Impairment charge for credit losses, net	7(b)	**738,000**	514,565
Impairment charge for non-trading investments	6(f)	**107,000**	40,000
Total operating expenses		**1,404,277**	1,093,976
Income from operating activities		**344,981**	423,182
Share in earnings of associates	8	**94,876**	115,587
Net income for the year		**439,857**	538,769
Income attributable to non controlling interests		**10,522**	17,143
Net income for the year attributable to equity holders of the Bank		**429,335**	521,626
Basic and diluted earnings per share, attributable to equity holders of Bank (expressed in SAR per share)	24	**0.95**	1.16

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2010 and 2009

	2010 SAR'000	2009 SAR'000
Net income for the year	**439,857**	538,769
Other comprehensive income:		
Available for sale investments:		
- Net change in fair value	**385,179**	375,276
- Fair value gains transferred to consolidated income statement on disposal	**(123,336)**	(85,910)
Share of other comprehensive income of associates	**3,483**	-
Total other comprehensive income for the year	**265,326**	289,366
Total comprehensive income for the year	**705,183**	828,135
Attributable to:		
Equity holders of the Bank	**694,463**	810,961
Non controlling interests	**10,720**	17,174
Total comprehensive income for the year	**705,183**	828,135

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2010 and 2009

2010	Note	Share capital SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Employee stock option shares SAR'000	Total SAR'000	Non con-trolling interests SAR'000	Total equity SAR'000
		Equity attributable to equity holders of the Bank							
Balance at the beginning of the year		**4,500,000**	**2,418,000**	**(284,548)**	**803,101**	**(44,490)**	**7,392,063**	**36,067**	**7,428,130**
Total comprehensive income for the year		-	-	**265,128**	**429,335**	**-**	**694,463**	**10,720**	**705,183**
Employees' stock option shares vested		-	-	**-**	**-**	**16,739**	**16,739**	**-**	**16,739**
Payment to non controlling interests		-	-	**-**	**-**	**-**	**-**	**(8,678)**	**(8,678)**
Transfer to statutory reserve	17	-	**108,000**	**-**	**(108,000)**	**-**	**-**	**-**	**-**
Balance at end of the year		**4,500,000**	**2,526,000**	**(19,420)**	**1,124,436**	**(27,751)**	**8,103,265**	**38,109**	**8,141,374**

2009	Note	Share capital SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Employee stock option shares SAR'000	Total SAR'000	Non con-trolling interests SAR'000	Total equity SAR'000
		Equity attributable to equity holders of the Bank							
Balance at the beginning of the year		4,500,000	2,287,000	(573,883)	412,475	(44,490)	6,581,102	27,496	6,608,598
Total comprehensive income for the year		-	-	289,335	521,626	-	810,961	17,174	828,135
Payment to non controlling interests		-	-	-	-	-	-	(8,603)	(8,603)
Transfer to statutory reserve	17	-	131,000	-	(131,000)	-	-	-	-
Balance at end of the year		4,500,000	2,418,000	(284,548)	803,101	(44,490)	7,392,063	36,067	7,428,130

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2010 and 2009

	Notes	2010 SAR'000	2009 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**439,857**	538,769
Adjustments to reconcile net income to net cash (used in) from operating activities:			
Accretion of discounts on investments, net		**9,593**	(54,566)
Gains on non-trading investments, net	22	**(123,336)**	(85,910)
Gain on sale of property and equipment	9	**(442)**	(126,453)
Depreciation and amortization	9	**57,397**	51,673
Impairment charge for credit losses, net	7(b)	**738,000**	514,565
Impairment charge for non-trading investments	6(f)	**107,000**	40,000
Share in earnings of associates	8	**(94,876)**	(115,587)
		1,133,193	762,491
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**145,800**	(106,424)
Due from banks and other financial institutions maturing after ninety days from date of acquisition		**-**	18,765
Loans and advances		**(1,955,095)**	(743,809)
Other assets		**(23,003)**	(145,448)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**1,684,063**	(1,996,963)
Customer deposits		**(1,032,287)**	(2,454,962)
Other liabilities		**(5,059)**	(315,960)
Net cash used in operating activities		**(52,388)**	(4,982,310)
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		**4,963,083**	6,306,926
Purchase of non-trading investments		**(2,017,649)**	(3,923,075)
Investments in associates	8	**-**	(5,052)
Dividends received from associates	8	**50,919**	22,752
Purchase of property and equipment	9	**(98,777)**	(237,538)
Proceeds from sale of property and equipment		**615**	153,549
Net cash from investing activities		**2,898,191**	2,317,562
FINANCING ACTIVITIES			
Term loan proceeds		**-**	500,000
Payment to non controlling interest		**(8,678)**	(8,603)
Net cash (used in) / from financing activities		**(8,678)**	491,397
Increase / (Decrease) in cash and cash equivalents		**2,837,125**	(2,173,351)
Cash and cash equivalents at beginning of the year		**5,607,391**	7,780,742
Cash and cash equivalents at end of the year	26	**8,444,516**	5,607,391
Special commission received during the year		**1,675,985**	1,870,808
Special commission paid during the year		**396,779**	1,161,931
<u>Supplemental non-cash information</u>			
Total other comprehensive income for the year		**265,326**	289,366
Settlement of loans for investments and other real estate		**-**	898,907
Employee stock option shares vested		**16,739**	-

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

1. General

The Saudi Investment Bank (the Bank), a Saudi Joint Stock Company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 45 branches (2009: 43 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides to its customers Islamic (non-interest based) banking products, which are approved and supervised by an independent Shariah Board established by the Bank.

The consolidated financial statements include the financial statements of the Bank and the following subsidiaries:

a) "Alistithmar for Financial Securities and Brokerage Company", a limited liability company, registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 99% owned by the Bank with the remaining 1% owned by a representative Saudi shareholder;

b) "SAIB BNP Paribas Asset Management Company", a limited liability company, registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010240312 issued on 4 Thu Al Qada 1428H (corresponding to November 14, 2007), and is 55% owned by the Bank with the remaining 45% by Saudi and Foreign shareholders; and

c) "Saudi Investment Real Estate Company", a limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No.1010268297 issued on 29 Jumada Awal 1430H (corresponding to 25 May 2009) and is owned 99% by the Bank with the remaining 1% owned by a representative Saudi shareholder. The company has not commenced any significant operations.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements to comply with the requirements of the Banking Control Law, the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and available-for-sale financial assets. In addition, assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

c) Functional and preparation currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SAR) which is the Bank's functional currency. Except as indicated, financial information presented in SAR has been rounded off to the nearest thousand.

2. Basis of preparation – continued

d) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment for credit losses on loans and advances

The Bank reviews its loan portfolios to assess specific and collective impairment at each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger and followed by a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable market data. However, areas such as credit risk (both own and counter party), and volatilities and correlations require management to make estimates. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates, and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect reported fair values of financial instruments.

(iii) Impairment of available-for-sale equity investments

The Bank exercises judgement in considering impairment on the available-for-sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(iv) Classification of held to maturity investments

In accordance with the guidance of IAS 39, the Bank classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

e) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financials statements are set out below. Except for the change in accounting policies as detailed in note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year.

a) Change in accounting policies

The accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2009 except as mentioned below.

a. Amendments to IAS 1, “Presentation of financial statements”. The amendments provide clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current.

b. Amendments to IAS 27 “Consolidated and Separate Financial Statements (amended 2008)”. The amendments require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with the Parent in their capacity as Parent. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

c. Amendments to IAS 32, “Financial Instruments: Presentation”. These amendments deal with the classification of rights issues.

d. Amendments to IAS 38, “Intangible assets”. The amendments provide guidance in measuring the fair value of an intangible asset acquired in a business combination and they permit the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

e. Amendments to IAS 39, “Financial Instruments – Recognition and Measurement – Eligible hedged items”. The amendments were issued in July 2008. These amendments clarify how the principles that determine whether a hedged risk or portion of cash flows not eligible for designation should be applied in particular situations.

The above and other amendments to existing standards are effective for 2010 but adoption of these amendments did not have a material impact on the Bank’s 2010 consolidated financial statements.

Other amendments resulting from improvements to IFRSs to the following standards did not have a significant impact on the accounting policies, financial position or performance of the Bank:

- IFRS 2 Share-based Payment
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

3. Summary of significant accounting policies – continued

b) Basis of consolidation

These consolidated financial statements comprise the financial statements of The Saudi Investment Bank and its subsidiaries, Alistithmar for Financial Securities and Brokerage Company and SAIB BNP Paribas Asset Management Company, and Saudi Investment Real Estate Company (collectively referred to as the "Group"). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of the acquisition or up to the date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

Non controlling interests represent the portion of net income and net assets not owned, directly or indirectly, by the Bank in SAIB BNP Paribas Asset Management Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from equity attributable to shareholders of the Bank.

Any losses attributable to the non controlling interests in excess of their interests are allocated against the interests of the Bank. Acquisitions of non controlling interests are accounted for using the Bank extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill.

Material Inter-group balances and any material income and expenses arising from inter-group transactions, are eliminated in preparing these consolidated financial statements.

c) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. Associates are enterprises in which the Bank generally holds approximately 20% to 50% of the voting power or over which it has significant influence and which is neither a subsidiary nor a joint venture.

Share in earnings of associates represents the Bank's equity interest in the net income of its associate companies that are being accounted for on the equity method of accounting. The Bank generally records its share in earnings when a reasonable estimate can be made or audited financial statements are obtained.

d) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales, are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3. Summary of significant accounting policies – continued

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models, and pricing models as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

(i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated income statement and disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting including embedded derivatives.

(ii) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

(iii) Hedge accounting

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in the case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

iii (a) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated income statement together with change in the fair value of the hedged item attributable to the hedged risk.

3. Summary of significant accounting policies – continued

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

iii (b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect the consolidated income statement, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement.

Where the hedged transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised, the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the transaction is no longer expected to occur or the Bank revokes the designation, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of income.

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date**.** The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non operating income in the consolidated income statement, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement except for differences arising on the retranslation of available for sale equity instruments. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated income statement or in other comprehensive income depending on the underlying financial asset.

g) Offsetting financial instruments

Financial assets and liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3. Summary of significant accounting policies – continued

h) Revenue /expense recognition

Special commission income and expense - Special commission income and expense for all special commission-bearing financial instruments, are recognised in the consolidated income statement on the effective yield basis. The effective yield is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of a financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield rate applied to the new carrying amount.

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees and points paid or transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Exchange income / Loss - Exchange income/loss is recognised when earned/incurred.

Fee income from Banking services that are not an integral component of the effective yield calculation on a financial asset or liability are generally recognised on an accrual basis when the related service is provided. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, and are recognised as expenses as the services are received.

Dividend income - Dividend income is recognised when the right to receive payment is established.

Net trading income - Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense and dividends for financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

i) Sale and repurchase agreements

Underlying assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as available for sale. The counter-party liability for amounts received under these agreements is included in “Due to banks and other financial institutions” or “Customers’ deposits”, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the underlying assets. Amounts paid under these agreements are included in “Due from banks and other financial institutions”. The difference between the purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

3. Summary of significant accounting policies – continued

j) Investments

All investment securities are initially recorded at fair value, including any incremental direct transaction cost. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Available for sale

Available-for-sale investments are those equity and debt securities intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates, or equity prices.

Investments which are classified as “available-for-sale” are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

Special commission income is recognised in the consolidated income statement on an effective yield basis. Dividend income is recognised in the consolidated income statement when the right to receive payment is established. Foreign exchange gains or losses on available for sale debt security investments are recognised in the consolidated income statement.

A security held as available for sale may be reclassified to “other investments held at amortized cost” if it other wise would have met the definition of “other investments held at amortized cost” and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(ii) Held to maturity

Investments having fixed or determinable payments and a fixed maturity and for which the Bank has a positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank’s ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

3. Summary of significant accounting policies – continued

However, sales or reclassifications in any of the following circumstances would not impact the Group's ability to use this classification:

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value;
- Sales or reclassifications after the Group has collected substantially all of the assets original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Loans and advances are recognized when cash is advanced to borrowers. They are derecognized when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances.

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged, are stated at amortized cost less any amount written off and allowance for credit losses.

l) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the reporting date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amount.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the consolidated income statement or through a provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated income statement and included in the relevant impairment charges.

Loans and advances whose terms have been renegotiated are no longer considered to be past due and are treated as new loans. Restructuring policies and practices are based on indicators or criteria which indicate that payment will most likely continue. The loans and advances continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

3. Summary of significant accounting policies – continued

(i) Impairment of financial assets held at amortized cost

A financial asset or group of financial assets are classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset or group of financial assets and where a loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortized cost is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.

In addition to specific provisions for credit losses, provisions for collective impairment are made on a portfolio basis. The collective impairment provisions are estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions.

For financial assets at amortised cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the consolidated income statement.

(ii) Impairment of available-for-sale financial assets

For debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed and recognised in the consolidated income statement.

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through the consolidated income statement as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in other comprehensive income. On derecognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

m) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is considered as held for sale and is initially stated at the lower of net realizable value of due loans and advances and the current fair value of the related properties, less any costs to sell, if material. No depreciation is charged on such real estate. Rental income from other real estate is recognized in the consolidated income statement.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized together with any gain/ loss on disposal in the consolidated income statement.

3. Summary of significant accounting policies – continued

n) Property and equipment

Property and equipment is stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated income statement.

o) Financial liabilities

All money market deposits, customer deposits, term loans, and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently all commission-bearing financial liabilities other than those where fair values have been hedged are measured at amortised cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resulting gain or loss is recognized in the consolidated income statement. For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated income statement when derecognized.

p) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of the expenditure required to settle any financial obligations arising as a result of such guarantees. Any increase in the liability relating to a financial guarantee is recognized in the consolidated income statement. The premium received is recognised in the consolidated income statement in "Fee income from banking services, net" on a straight line basis over the life of the guarantee.

q) Provisions

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

r) Accounting for leases

Leases entered into by the Bank as a lessee, are all operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

3. Summary of significant accounting policies – continued

s) Cash and cash equivalents

For the purpose of the statement of cash flows, “cash and cash equivalents” are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition.

t) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to receive the cash flows from the financial asset expires.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognized if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Bank has not retained control of the financial asset. The Bank recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

u) Zakat and income taxes

Zakat and income taxes are considered as liabilities of the Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders’ share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of adjusted net income for the year under the income tax regulations.

Zakat and income tax are not charged to the Bank’s consolidated income statement and are deducted from dividends paid to the shareholders, or reimbursed by the shareholders.

v) Employees’ incentive plans

The Bank offers to its eligible employees (“Employees”) equity shares in the Bank under the Employee Stock Grant Plan (“the Plan”). This Plan has been approved by SAMA. Under the terms of the plan, employees are granted shares which vest over a four-year period. The cost of the plan is measured by the value of the shares on the date purchased and recognised over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. However, such employee stock option shares are recorded by the Bank at cost and presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sales of such shares.

In addition, the Bank grants its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

The Bank has entered into a custody agreement with an independent third party to administer the security plans on behalf of its employees. Under the provisions of the agreement, the Bank, at no point, becomes the legal owner of the underlying shares.

w) Investment management services

The Bank offers investment services to its customers, through a subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank’s share of these funds is included in available-for-sale investments and fees earned are disclosed in note 20.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

3. Summary of significant accounting policies – continued

x) Non-interest based banking products

In addition to conventional banking, the Bank offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

(i) Murabaha - an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

(ii) Istisna'a - an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

(iii) Ijarah - an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All non-special interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

4. Cash and balances with SAMA

Cash and balances with SAMA is summarized as follows:

	2010 SAR'000	2009 SAR'000
Cash in hand	**401,394**	341,418
Statutory deposit	**1,040,687**	1,186,487
Total	**1,442,081**	1,527,905

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposits with SAMA are not available to finance the Bank's day to day operations and therefore are not part of cash and cash equivalents.

5. Due from banks and other financial institutions

Due from banks and other financial institution is summarized as follows:

	2010 SAR'000	2009 SAR'000
Current accounts	**80,827**	78,442
Money market placements	**4,356,295**	4,111,531
Reverse repos	**3,606,000**	1,076,000
Total	**8,043,122**	5,265,973

6. Investments, net

a) Investment securities are classified as follows:

i) Available for sale

	Domestic		International		Total	
	2010	2009	**2010**	2009	**2010**	2009
	SAR'000	SAR'000	**SAR'000**	SAR'000	**SAR'000**	SAR'000
Fixed rate securities	**793,388**	1,199,457	**823,037**	726,225	**1,616,425**	1,925,682
Floating rate securities	**2,204,551**	3,244,585	**2,312,124**	2,547,545	**4,516,675**	5,792,130
Equities	**606,881**	1,266,312	**31,007**	78,782	**637,888**	1,345,094
Mutual funds	**198,181**	434,289	**-**	-	**198,181**	434,289
Allowance for impairment	**-**	(40,000)	**(77,000)**	-	**(77,000)**	(40,000)
Available for sale, net	**3,803,001**	6,104,643	**3,089,168**	3,352,552	**6,892,169**	9,457,195

ii) Held to maturity

	Domestic		International		Total	
	2010	2009	**2010**	2009	**2010**	2009
	SAR'000	SAR'000	**SAR'000**	SAR'000	**SAR'000**	SAR'000
Fixed rate securities	**50,000**	50,000	**550,842**	644,590	**600,842**	694,590
Floating rate securities	**650,000**	650,000	**-**	18,074	**650,000**	668,074
Allowance for impairment	**-**	-	**(83,000)**	(83,000)	**(83,000)**	(83,000)
Held to maturity, net	**700,000**	700,000	**467,842**	579,664	**1,167,842**	1,279,664

iii) Investments, net

	Domestic		International		Total	
	2010	2009	**2010**	2009	**2010**	2009
	SAR'000	SAR'000	**SAR'000**	SAR'000	**SAR'000**	SAR'000
Fixed rate securities	**843,388**	1,249,457	**1,373,879**	1,370,815	**2,217,267**	2,620,272
Floating rate securities	**2,854,551**	3,894,585	**2,312,124**	2,565,619	**5,166,675**	6,460,204
Equities	**606,881**	1,266,312	**31,007**	78,782	**637,888**	1,345,094
Mutual funds	**198,181**	434,289	**-**	**-**	**198,181**	434,289
Allowance for impairment	**-**	(40,000)	**(160,000)**	(83,000)	**(160,000)**	(123,000)
Investments, net	**4,503,001**	6,804,643	**3,557,010**	3,932,216	**8,060,011**	10,736,859

The available for sale domestic fixed rate securities and available for sale floating rate securities include receivable securitization agreements amounting to SR 35 million (2009: SR 120 million) entered into by the Bank. Upon initial recognition, these items were designated as available for sale. Their fair values are determined by using an appropriate pricing model.

6. Investments, net – continued

b) The analysis of the composition of investments is as follows:

i) Available for sale

	2010			2009		
	Quoted SAR'000	**Unquoted SAR'000**	**Total SAR'000**	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	**1,354,754**	**261,671**	**1,616,425**	1,666,913	258,769	1,925,682
Floating rate securities	**2,920,883**	**1,595,792**	**4,516,675**	1,869,396	3,922,734	5,792,130
Equities	**626,760**	**11,128**	**637,888**	1,333,965	11,129	1,345,094
Mutual funds	**198,181**	**-**	**198,181**	434,289	-	434,289
Allowance for impairment	**(77,000)**	**-**	**(77,000)**	(40,000)	-	(40,000)
Available for sale, net	**5,023,578**	**1,868,591**	**6,892,169**	5,264,563	4,192,632	9,457,195

ii) Held to maturity

	2010			2009		
	Quoted SAR'000	**Unquoted SAR'000**	**Total SAR'000**	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	**427,599**	**173,243**	**600,842**	521,331	173,259	694,590
Floating rate securities	**650,000**	**-**	**650,000**	668,074	-	668,074
Allowance for impairment	**-**	**(83,000)**	**(83,000)**	-	(83,000)	(83,000)
Held to maturity, net	**1,077,599**	**90,243**	**1,167,842**	1,189,405	90,259	1,279,664

iii) Investments, net:

	2010			2009		
	Quoted SAR'000	**Unquoted SAR'000**	**Total SAR'000**	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	**1,782,353**	**434,914**	**2,217,267**	2,188,244	432,028	2,620,272
Floating rate securities	**3,570,883**	**1,595,792**	**5,166,675**	2,537,470	3,922,134	6,460,204
Equities	**626,760**	**11,128**	**637,888**	1,333,965	11,129	1,345,094
Mutual funds	**198,181**	**-**	**198,181**	434,289	-	434,289
Allowance for impairment	**(77,000)**	**(83,000)**	**(160,000)**	(40,000)	(83,000)	(123,000)
Investments, net	**6,101,177**	**1,958,834**	**8,060,011**	6,453,968	4,282,891	10,736,859

The unquoted securities above principally comprise receivable securitization agreements and Saudi Government Development Bonds (SGDBs).

6. Investments, net – continued

c) The analysis of unrealized gains and losses and fair values of held-to-maturity investments is as follows:

	2010 SAR'000				2009 SAR'000			
	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value
Fixed rate securities	**517,842**	**29,340**	**123,015**	**424,167**	611,590	26,102	122,077	515,615
Floating rate securities	**650,000**	**11,375**	**-**	**661,375**	668,074	118	-	668,192
Total	**1,167,842**	**40,715**	**123,015**	**1,085,542**	1,279,664	26,220	122,077	1,183,807

d) The analysis of investments, net by counterparty is as follows:

	2010 SAR'000	2009 SAR'000
Government and quasi-Government	**1,908,174**	2,775,903
Corporate	**3,254,614**	5,064,123
Banks and other financial institutions	**2,897,223**	2,896,833
Total	**8,060,011**	10,736,859

e) The credit risk exposure of investments is as follows:

	2010 SAR'000	2009 SAR'000
Investment grade	**5,926,099**	6,913,184
Non investment grade	**758,219**	1,267,498
Unrated	**1,375,693**	2,556,177
Total	**8,060,011**	10,736,859

Equities reported under available-for-sale investments include unquoted shares of SAR 11.1 million (2009: SAR 11.1 million) that are carried at cost, as their fair value cannot be reliably measured. The fair value of these unquoted investments is estimated at between SAR 8 million and SAR 10 million at year end (2009: SAR 8.0 million and SAR 10 million at year end).

Investments include SAR 3,531 million (2009: SAR 2,593 million), which have been pledged under repurchase agreements with other banks. The market value of such investments is SAR 3,460 million (2009: SAR 2,573 million).

f) The movement of allowance for impairment on investments is as follows:

	2010 SAR'000	2009 SAR'000
Balance at the beginning of the year	**123,000**	1,106,019
Provided during the year	**107,000**	40,000
Amounts written off during the year	**(70,000)**	(1,023,019)
Balance at the end of the year	**160,000**	123,000

7. Loans and advances, net

a) Loans and advances, net held at amortized cost are comprised of the following:

2010	Overdraft SAR'000	Consumer SAR'000	Commercial SAR'000	Others SAR'000	Total SAR'000
Performing loans and advances	**2,527,334**	**4,435,676**	**24,208,205**	**17,068**	**31,188,283**
Non performing loans and advances	**1,763,386**	**27,714**	**-**	**-**	**1,791,100**
Total loans and advances	**4,290,720**	**4,463,390**	**24,208,205**	**17,068**	**32,979,383**
Allowance for credit losses	**(1,538,174)**	**(43,065)**	**(396,245)**	**-**	**(1,977,484)**
Loans and advances, net	**2,752,546**	**4,420,325**	**23,811,960**	**17,068**	**31,001,899**

2009	Overdraft SAR'000	Consumer SAR'000	Commercial SAR'000	Others SAR'000	Total SAR'000
Performing loans and advances	2,333,349	2,966,327	23,932,826	18,488	29,250,990
Non performing loans and advances	1,764,050	22,139	-	-	1,786,189
Total loans and advances	4,097,399	2,988,466	23,932,826	18,488	31,037,179
Allowance for credit losses	(863,804)	(16,979)	(371,592)	-	(1,252,375)
Loans and advances, net	3,233,595	2,971,487	23,561,234	18,488	29,784,804

Loans and advances above include non-interest based banking products in respect of Murabaha agreements, Istisna'a and Ijarah which are stated at amortized cost of SAR 10,993 million (2009: SAR 9,451 million).

b) The movement in the allowance for credit losses is as follows:

2010	Overdraft SAR '000	Consumer SAR'000	Commercial SAR'000	Total SAR'000
Balance at the beginning of the year	**863,804**	**16,979**	**371,592**	**1,252,375**
Provided during the year	**674,370**	**38,977**	**24,653**	**738,000**
Bad debts written off	**-**	**(16,725)**	**-**	**(16,725)**
Recoveries of amounts previously written off	**-**	**3,834**	**-**	**3,834**
Balance at the end of the year	**1,538,174**	**43,065**	**396,245**	**1,977,484**

2009	Overdraft SAR '000	Consumer SAR'000	Commercial SAR'000	Total SAR'000
Balance at the beginning of the year	163,280	22,148	557,551	742,979
Provided (reversal) during the year	700,524	-	(185,959)	514,565
Bad debts written off	-	(6,475)	-	(6,475)
Recoveries of amounts previously written off	-	1,306	-	1,306
Balance at the end of the year	863,804	16,979	371,592	1,252,375

7. Loans and advances, net – continued

c) The credit quality of loans and advances is summarized as follows:

(i) Neither past due nor impaired loans and advances:

	2010 SAR'000	2009 SAR'000
Strong	**12,610,635**	12,651,845
Average	**4,605,326**	3,979,469
Acceptable	**7,994,359**	9,116,830
Marginal	**1,065,858**	487,221
Watch	**65,823**	49,298
Unrated	**4,379,420**	2,425,429
Total	**30,721,421**	28,710,092

The neither past due nor impaired loans and advances are described as follows:

Strong - strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Average - moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable - minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal - unfavorable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch - unfavorable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances consists of consumer loans with no past due balances.

(ii) Past due but not impaired loans and advances:

2010	**Overdraft and commercial loans SAR '000**	**Consumer SAR'000**	**Total SAR'000**
From 1 day to 30 days	**15**	**17,066**	**17,081**
From 31 days to 90 days	**116,245**	**13,086**	**129,331**
From 91 days to 180 days	**57,776**	**23,585**	**81,361**
More than 180 days	**236,570**	**2,519**	**239,089**
Total	**410,606**	**56,256**	**466,862**

7. Loans and advances, net – continued

2009	Overdraft and commercial loans SAR '000	Consumer SAR'000	Total SAR'000
From 1 day to 30 days	146,020	7,463	153,483
From 31 days to 90 days	69,969	5,162	75,131
From 91 days to 180 days	64,177	8,108	72,285
More than 180 days	229,826	10,173	239,999
Total	509,992	30,906	540,898

(iii) The economic sector risk concentrations for loans and advances and allowance for credit losses are as follows:

2010	**Performing SAR'000**	**Non performing SAR'000**	**Allowance for credit losses SAR'000**	**Loans and advances, net SAR'000**
Government and quasi-Government	**64,716**	**-**	**(647)**	**64,069**
Banks and other financial services	**2,222,126**	-	**(22,221)**	**2,199,905**
Agriculture and fishing	**146,093**	**-**	**(1,461)**	**144,632**
Manufacturing	**1,976,461**	**31,216**	**(49,978)**	**1,957,699**
Mining and quarrying	**210,727**	**-**	**(2,107)**	**208,620**
Building and construction	**1,688,440**	**250**	**(17,115)**	**1,671,575**
Commerce	**11,333,877**	**1,636,123**	**(1,709,467)**	**11,260,533**
Electricity, water, gas and health services	**286,634**	**-**	**(2,866)**	**283,768**
Transportation and communication	**64,451**	**-**	**(645)**	**63,806**
Services	**2,791,774**	**18,883**	**(54,724)**	**2,755,933**
Consumer loans	**4,435,675**	**27,714**	**(4,087)**	**4,459,302**
Other	**5,967,309**	**76,914**	**(112,166)**	**5,932,057**
Total	**31,188,283**	**1,791,100**	**(1,977,484)**	**31,001,899**

2009	**Performing SAR'000**	**Non performing SAR'000**	**Allowance for credit losses SAR'000**	**Loans and advances, net SAR'000**
Government and quasi-Government	544,856	-	(5,449)	539,407
Banks and other financial institutions	2,343,912	-	(23,439)	2,320,473
Agriculture and fishing	50,000	-	(500)	49,500
Manufacturing	2,173,688	31,216	(63,626)	2,141,278
Building and construction	3,868,154	250	(39,005)	3,829,399
Commerce	10,609,223	1,636,123	(920,841)	11,324,505
Transportation and communication	54,247	-	(542)	53,705
Services	825,467	18,863	(42,115)	802,215
Consumer loans	2,966,327	22,139	(16,979)	2,971,487
Other	5,815,116	77,598	(139,879)	5,752,835
Total	29,250,990	1,786,189	(1,252,375)	29,784,804

7. Loans and advances, net – continued

d) Collateral on loans and advances is summarized as follows:

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk on loans and advances. Collateral primarily includes time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and other loans and are managed against relevant exposures at their net realizable values. The fair value of collateral held by the Bank is SAR 21,868 million (2009: SAR 20,494 million) against neither past due nor impaired, SAR 2,273 million (2009: SAR 3,956 million) against past due but not impaired and SAR 16,138 million (2009: SAR 42 million) against impaired loans and advances.

e) Repossessed assets previously held as collateral is summarized as follows:

The Bank has not repossessed any assets held as collateral in settlement of credit exposures during 2010. In 2009, the Bank repossessed a parcel of land for approximately SAR 153 million and shares of a listed company for approximately SAR 746 million in settlement of credit exposures.

8) Investments in associates

Investments in associates represent the Bank's share of investments in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

(i) Investments in associates include the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

	2010	2009
Amex Saudi Arabia Limited ("AMEX")	50%	50%
Saudi Orix Leasing Company ("ORIX")	38%	38%
Amlak International for Finance and Real Estate Development Co.	29%	29%
Mediterranean & Gulf Insurance & Reinsurance Co. – KSA ("MEDGULF")	19%	19%

The Bank continues to have significant influence on MEDGULF operations through representation on its Board of Directors.

The Bank also has a 20% interest in Naeem Investment Company which has no operations.

(ii) The movement of investments in associates is summarized as follows:

	2010 SAR'000	2009 SAR'000
Balance at beginning of the year	**817,309**	719,422
Acquisitions, net of disposals	**-**	5,052
Share of income and loss, net	**94,876**	115,587
Dividends	**(50,919)**	(22,752)
Share of other comprehensive income of associates	**3,483**	-
Balance at end of the year	**864,749**	817,309

8. Investment in associates - continued

(iii) The Bank's share of the associate's financial statements is summarized below:

2010	MEDGULF SAR'000	AMEX SAR'000	ORIX SAR'000	AMLAK SAR'000
Total assets	**250,392**	**96,398**	**378,091**	**254,316**
Total liabilities	**53,440**	**42,963**	**242,880**	**2,282**
Total equity	**196,952**	**53,435**	**135,211**	**252,034**
Total income	**36,441**	**98,480**	**50,941**	**11,748**
Total expenses	**385**	**66,086**	**28,984**	**7,357**

2009	MEDGULF SAR'000	AMEX SAR'000	ORIX SAR'000	AMLAK SAR'000
Total assets	229,401	122,002	370,539	245,927
Total liabilities	53,562	75,190	250,047	3,998
Total equity	175,839	46,812	120,492	241,929
Total income	28,900	98,493	49,596	10,671
Total expenses	1,062	66,095	32,073	10,064

9. Property and equipment, net

Property and equipment, net is summarized as follows:

	Land and buildings SAR'000	Leasehold improvements SAR'000	Furniture, equipment and vehicles SAR'000	Total 2010 SAR'000	Total 2009 SAR'000
Cost					
Balance at beginning of the year	**690,587**	**34,317**	**273,345**	**998,249**	796,300
Additions	**64,782**	**14,067**	**19,928**	**98,777**	237,538
Disposals	**-**	**-**	**(2,232)**	**(2,232)**	(35,589)
Balance at end of the year	**755,369**	**48,384**	**291,041**	**1,094,794**	998,249
Accumulated depreciation					
Balance at beginning of the year	**50,912**	**28,281**	**212,411**	**291,604**	248,715
Charge for the year	**25,379**	**3,761**	**28,257**	**57,397**	51,673
Disposals	**-**	**-**	**(2,059)**	**(2,059)**	(8,784)
Balance at end of the year	**76,291**	**32,042**	**238,609**	**346,942**	291,604
Net book value					
As at December 31, 2010	**679,078**	**16,342**	**52,432**	**747,852**	
As at December 31, 2009	639,675	6,036	60,934		706,645

In 2009, the Bank sold a parcel of land with a book value of approximately SAR 14.8 million, for approximately SAR 141.3 million, realizing a gain on the sale of approximately SAR 126.5 million. The land was previously acquired through the settlement of a loan.

10. Other assets

Other assets is summarized as follows:

	2010 SAR'000	2009 SAR'000
Accrued special commission receivable		
- Banks and other financial institutions	**3,065**	8,628
- Investments	**49,589**	60,792
- Loans and advances	**423,391**	438,205
- Other	**23,959**	23,405
Total accrued special commission receivable	**500,004**	531,030
Accounts receivable	**280,975**	355,017
Positive fair value of derivatives (note 11)	**46,289**	37,782
Other real estate	**182,460**	182,460
Other	**321,791**	202,227
Total	**1,331,519**	1,308,516

11. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

The derivative financial instruments utilized are either held for trading or held for hedging purposes as described below.

11. Derivatives – continued

a) Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials, between markets or products.

b) Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. The risk management process involves managing the Bank's exposure to fluctuations in currency and commission rate risks to acceptable levels as determined by the Board of Directors and within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are routinely monitored and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are periodically used to reduce commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions.

The Bank uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

11. Derivatives – continued

c) Derivative Financial Instruments are summarized as follows:

				Notional amounts by term to maturity				
2010	**Positive fair value SAR'000**	**Negative fair value SAR'000**	**Notional amount total SAR'000**	**Within 3 months SAR'000**	**3-12 months SAR'000**	**1-5 years SAR'000**	**Over 5 years SAR'000**	**Monthly average SAR'000**
Held for trading:								
Forward foreign exchange contracts	**1,074**	**209**	**598,901**	**598,834**	**-**	**17**	**50**	**969,674**
Commission rates swaps	**16,035**	**45,957**	**1,223,524**	**-**	**972,548**	**250,976**	**-**	**984,768**
Held as fair value hedge:								
Commission rate swaps	**29,180**	**22,077**	**281,269**	**-**	**-**	**281,269**	**-**	**33,205**
Total	**46,289**	**68,243**	**2,103,694**	**598,834**	**972,548**	**532,262**	**50**	**1,987,647**

				Notional amounts by term to maturity				
2009	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount total SAR'000	Within 3 months SAR'000	3-12 months SAR'000	1-5 years SAR'000	Over 5 years SAR'000	Monthly average SAR'000
Held for trading:								
Forward foreign exchange contracts	2,247	6,668	2,433,121	2,432,694	-	320	107	1,416,208
Commission rates swaps	35,535	84,543	868,805	-	-	868,805	-	861,420
Held as fair value hedge:								
Commission rate swaps	-	-	-	-	-	-	-	-
Total	37,782	91,211	3,301,926	2,432,694	-	869,125	107	2,277,628

c) The gains on hedging instruments for fair value hedges are SAR 7.1 million (2009: SAR nil). The losses on hedged items attributable to hedged risk are SAR 2.8 million (2009: SAR nil).

The net fair value of all derivatives is SAR –21.9 million (2009: SAR –53.4 million).

Approximately 100% (2009: 100%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 94% (2009: 94%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

12. Due to banks and other financial institutions

Due to banks and other financial institutions is summarized as follows:

	2010 SAR'000	2009 SAR'000
Current accounts	**66,309**	599,190
Repos	**2,900,573**	1,905,772
Money market deposits	**1,929,131**	706,988
Total	**4,896,013**	3,211,950

13. Customer deposits

Customer deposits is summarized as follows:

	2010 SAR'000	2009 SAR'000
Demand	**4,792,027**	4,508,574
Savings	**2,215,201**	1,709,233
Time	**15,967,034**	18,327,819
Other	**14,240,880**	13,701,803
Total	**37,215,142**	38,247,429

Time deposits include deposits against sale of securities of SAR 895 million (2009: SAR 812 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 207 million (2009: SAR 171 million) of margins held for irrevocable commitments.

The above amounts include foreign currency deposits (equivalent to Saudi Riyals) as follows:

	2010 SAR'000	2009 SAR'000
Demand	**246,980**	181,659
Savings	**809,335**	125,850
Time	**888,163**	4,389,006
Other	**2,383,011**	2,265,823
Total	**4,327,489**	6,962,338

14. Other liabilities

Other liabilities is summarized as follows:

	2010 SAR'000	2009 SAR'000
Accrued special commission payable		
– Banks and other financial institutions	**12,234**	3,043
– Customer deposits	**120,213**	189,394
Total accrued special commission payable	**132,447**	192,437
Negative fair value of derivatives (note 11)	**68,243**	91,211
Other	**538,014**	476,854
Total	**738,704**	760,502

15. Term loan

On April 7, 2009 the Bank entered into a three-year term loan facility agreement for an amount of SAR 500 million for general corporate purposes. The facility has been fully utilized and is repayable in April 2012. The Bank, however, has an option to effect an early repayment, subject to the terms and conditions of the related agreement.

16. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 450 million shares of SAR 10 each.

The ownership of the Bank's share capital is as follows:

	2010	2009
	%	%
Saudi shareholders	**90.0**	90.0
Foreign shareholders:		
J.P. Morgan International Finance Limited	**7.5**	7.5
Mizuho Corporate Bank Limited	**2.5**	2.5

17. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 108 million has been transferred from 2010 net income (2009: SAR 131 million). The statutory reserve is not available for distribution.

18. Commitments and contingencies

a) Legal proceedings

As of December 31, 2010 there were routine legal proceedings outstanding against the Bank. No provision has been made in most cases as professional legal advice indicates that it is not probable that any significant loss will arise. However, a provision has been made for certain specific cases where management foresees the possibility of an adverse outcome.

b) Capital commitments

As at December 31, 2010, the Bank had capital commitments of SAR 31.9 million (2009: SAR 93.2 million) in respect of construction for new branches and expansion of its head office.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

18. Commitments and contingencies - continued

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure for the Bank's commitments and contingencies are as follows:

2010	**Within 3 months SAR'000**	**3-12 months SAR'000**	**1-5 years SAR'000**	**Over 5 years SAR'000**	**Total SAR'000**
Letters of credit	**1,045,636**	**211,046**	**41,317**	**-**	**1,297,999**
Letters of guarantee	**891,524**	**1,559,195**	**1,426,435**	**7,895**	**3,885,049**
Acceptances	**149,091**	**134,619**	**503**	**-**	**284,213**
Irrevocable commitments to extend credit	**-**	**-**	**66,543**	**45,535**	**112,078**
Total	**2,086,251**	**1,904,860**	**1,534,798**	**53,430**	**5,579,339**

2009	Within 3 months SAR'000	3-12 months SAR'000	1-5 years SAR'000	Over 5 years SAR'000	Total SAR'000
Letters of credit	630,922	140,972	2,758	75,015	849,667
Letters of guarantee	753,651	1,377,287	1,076,027	8,784	3,215,749
Acceptances	135,204	98,967	1,077	-	235,248
Irrevocable commitments to extend credit	-	-	455,100	165,224	620,324
Total	1,519,777	1,617,226	1,534,962	249,023	4,920,988

The outstanding unused portion of commitments as of December 31, 2010 which can be revoked unilaterally at any time by the Bank, amounts to SAR 11,428 million (2009: SAR 9,990 million).

ii) The analysis of commitments and contingencies by counterparty is as follows:

	2010 SAR'000	2009 SAR'000
Government and quasi-Government	**3,366,328**	2,751,196
Corporate	**2,023,110**	2,001,665
Banks and other financial institutions	**63,909**	36,964
Other	**125,992**	131,163
Total	**5,579,339**	4,920,988

18. Commitments and contingencies – continued

d) Assets pledged

Securities pledged under repurchase agreements with other banks include corporate, Bank and non-government bonds.

Assets pledged as collateral with other financial institutions for security are as follows:

	2010		2009	
	Assets SAR'000	**Related Liabilities SAR'000**	Assets SAR'000	Related Liabilities SAR'000
Available-for-sale investments	**3,530,981**	**2,900,573**	2,592,853	1,905,772

e) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Bank is the lessee are as follows:

	2010 SAR'000	2009 SAR'000
Less than 1 year	**25,496**	25,695
1 to 5 years	**86,200**	82,958
Over 5 years	**28,334**	63,906
Total	**140,030**	172,559

19. Special commission income and expense

Special commission income and expense is summarized as follows:

	2010 SAR'000	2009 SAR'000
Special commission income:		
Investments		
- Available for sale	**152,984**	255,260
- Held to maturity	**44,432**	28,927
	197,416	284,187
Due from banks and other financial institutions	**48,064**	60,563
Loans and advances	**1,428,906**	1,497,773
Total	**1,674,386**	1,842,523

	2010 SAR'000	2009 SAR'000
Special commission expense:		
Due to banks and other financial institutions	**67,344**	94,551
Customer deposits	**171,161**	470,508
Term loan	**9,438**	7,174
Other	**111,479**	255,871
Total	**359,422**	828,104

20. Fee income from banking services, net

Fee income from banking services, net is summarized as follows:

	2010	2009
	SAR'000	SAR'000
Fee income:		
- Share trading and fund management	**83,019**	114,786
- Trade finance	**53,154**	51,899
- Corporate finance and advisory	**76,474**	40,896
- Other banking services	**41,585**	50,947
Total fee income	**254,232**	258,528
Fee expense:		
- Custodial services	**12,025**	18,002
- Other banking services	**485**	540
Total fee expense	**12,510**	18,542
Fee income from banking services, net	**241,722**	239,986

21. Dividend income

Dividend income is summarized as follows:

	2010	2009
	SAR'000	SAR'000
Investments		
- Available for sale	**41,053**	21,702
Total	**41,053**	21,702

22. Gains on non-trading investments, net

Gains on non-trading investments, net is summarized as follows:

	2010	2009
	SAR'000	SAR'000
Realized gains on available-for-sale investments	**123,336**	85,910

23. Compensation and related governance and practices

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended December 31, 2010, and the forms of such payments.

Category	Number of Employees	Fixed Compensation SAR'000	Variable Compensation SAR'000	Total Compensation SAR'000	Forms of Payment
Senior executives requiring SAMA no objection	**14**	**25,067**	**13,466**	**38,533**	**Cash / shares**
Employees engaged in risk taking activities	**477**	**78,273**	**17,726**	**95,999**	**Cash / shares**
Employees engaged in control functions	**216**	**37,670**	**10,190**	**47,860**	**Cash / shares**
Other employees	**240**	**42,175**	**9,588**	**51,763**	**Cash / shares**
Outsourced employees	**72**	**6,314**	**1,032**	**7,346**	**Cash**
Total	**1,019**	**189,499**	**52,002**	**241,501**	

The above information is a new disclosure required by SAMA for the first time in 2010. Accordingly, no comparative information is disclosed in these consolidated financial statements.

The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which is comprised of four board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation and remuneration of members of the Board of Director's, and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Director's the approval of the Bank's Compensation Policy and amendments thereto, to ensure the Bank's remuneration policies are in compliance with SAMA guidelines on compensation, to periodically review the Bank's remuneration and compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Remuneration and Compensation Policy is designed to attract, retain and motivate high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives. The Balanced Scorecard concept is used and objectives have typically been categorized into four segments including financial, customer, process, and people.

Financial and non-financial metrics are then used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, employee development, lending guidelines, internal controls, and procedures. Effective risk management is also emphasized to maintain a strong and secure operating platform. A Risk Appetite Policy has been established and compliance thereto is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share option schemes. Senior employees are also covered under a Key Employee Stock Option Grant Plan.

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

24. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2010 and 2009 is calculated by dividing the net income for the year attributable to the equity holders by 450.0 million shares (see note 16).

25. Proposed gross dividend, zakat and income tax

The Board of Directors has not proposed any cash dividend for the year 2010. The Board of Directors has proposed a bonus share issue of 100,000,000 shares with a Par Value of SR 10 per share, or one bonus share for each four and one-half shares outstanding. The proposed bonus share issue will be presented in an Extraordinary General Assembly Meeting in 2011.

Any future cash dividends to the Saudi and non-saudi shareholders will be paid after deducting zakat and any unreimbursed income tax, as follows:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the years 2006 through 2010 amounts to approximately SAR 105.8 million which will be deducted from their future share of cash dividends. The cumulative Zakat from 2006 up to 2010 amounts to approximately SAR 0.26 per share.

b) Foreign shareholders:

Income tax attributable to the non-saudi shareholders is nil for 2010 and 2009. Income tax for the years prior to 2009 have been reimbursed by the non Saudi shareholders.

26. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows is comprised of the following:

	2010 **SAR'000**	2009 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	**401,394**	341,418
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**8,043,122**	5,265,973
Total	**8,444,516**	5,607,391

27. Business segments

Business segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Decision Maker in order to allocate resources to the segments and to assess their performance.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated income statement. There are no material items of income or expense between the operating segments. Segment assets and liabilities are comprised of operating assets and liabilities.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia. The Bank's reportable segments are as follows:

Retail banking

Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

Corporate banking

Loans, deposits and other credit products for corporate and institutional customers.

Treasury

Money market, investments, trading and other treasury services.

27. Business segments – (continued)

Asset Management and brokerage

Dealing, managing, arranging, advising and custody of securities services.

Commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds. All of the segment revenue is from external customers.

a) The segment information provided to the Bank's Board of Directors which includes the reportable segments for the Bank's total assets and liabilities at December 31, 2010 and 2009, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

	(SAR'000)				
2010	**Retail Banking**	**Corporate Banking**	**Treasury**	**Asset Manage-ment and Brokerage**	**Total**
Total assets	**12,620,408**	**21,134,601**	**17,079,672**	**656,552**	**51,491,233**
Total liabilities	**10,915,248**	**26,660,874**	**5,752,351**	**21,386**	**43,349,859**
Net special commission income	**632,595**	**557,300**	**103,359**	**21,710**	**1,314,964**
Fee income from banking services, net	**65,951**	**98,735**	**-**	**77,036**	**241,722**
Other operating income	**442**	**-**	**192,130**	**-**	**192,572**
Total operating income	**698,988**	**656,035**	**295,489**	**98,746**	**1,749,258**
Operating expenses before impairment charges	**424,753**	**41,551**	**20,562**	**72,411**	**559,277**
Impairment charge for credit losses, net	**34,435**	**703,565**	**-**	**-**	**738,000**
Impairment charge for non trading investments	**-**	**-**	**107,000**	**-**	**107,000**
Total operating expenses	**459,188**	**745,116**	**127,562**	**72,411**	**1,404,277**
Share in earnings from associates	**-**	**-**	**94,876**	**-**	**94,876**
Net income / (loss) for the year	**239,800**	**(89,081)**	**262,803**	**26,335**	**439,857**

27. Business segments – (continued)

2009	Retail Banking	Corporate Banking	Treasury	Asset Manage-ment and Brokerage	Total
	(SAR'000)				
Total assets	12,260,255	20,510,618	16,949,099	428,039	50,148,011
Total liabilities	15,764,250	22,762,292	4,171,939	21,400	42,719,881
Net special commission income	539,630	462,608	12,181	-	1,014,419
Fee income from banking services, net	60,391	80,434	-	99,161	239,986
Other operating income	-	126,453	120,692	15,608	262,753
Total operating income	600,021	669,495	132,873	114,769	1,517,158
Operating expenses before impairment charges	257,248	25,362	179,738	77,063	539,411
Impairment charge for credit losses, net	225,449	289,116	-	-	514,565
Impairment charge for non trading investments	-	-	40,000	-	40,000
Total operating expenses	482,697	314,478	219,738	77,063	1,093,976
Share in earnings from associates	-	-	115,587	-	115,587
Net income / (loss) for the year	117,324	355,017	28,722	37,706	538,769

b) The Bank's credit exposure by business segment is as follows:

2010	**Retail Banking**	**Corporate Banking**	**Treasury**	**Asset Management And Brokerage**	**Total**
	(SAR'000)				
Statement of financial position assets	**10,771,343**	**19,681,396**	**16,887,365**	**629,677**	**47,969,781**
Commitments and contingencies	**1,556,293**	**901,564**	**28,480**	**-**	**2,486,337**
Derivatives	**-**	**-**	**11,518**	**-**	**11,518**

2009	Retail Banking	Corporate Banking	Treasury	Asset Management And Brokerage	Total
	(SAR'000)				
Statement of financial position assets	10,280,475	19,170,166	16,747,171	407,133	46,604,945
Commitments and contingencies	1,179,103	818,832	15,121	-	2,013,056
Derivatives	-	-	51,976	-	51,976

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding cash, property and equipment, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure.

28. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-statement of consolidated financial position financial instruments, such as loan commitments.

The Bank assesses the probability of default of counterparties using internal rating tools. The Bank also uses the external ratings of major rating agencies, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products, and emerging best practices.

The debt securities included in the investment portfolio are mainly corporate and sovereign risk. Analysis of investments by counter-party is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 18. The information on Bank's credit exposure by business segment is given in note 27. The information on credit risk exposure and their relative risk weights is also provided in note 34.

The Bank uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between performing and impaired portfolios and allocates portfolio provisions and specific provisions respectively. The Bank determines each individual borrower's grade based on specific objective and subjective criteria such as activity, cash flows, capital structure, security, quality of management and borrower's character. The Bank conducts a quality classification exercise over all of its existing borrowers and the results of this exercise are validated by the independent Risk Management Unit established within the Bank for that purpose.

29. Geographical concentration

a) The distribution of the Bank's primary credit exposure by geographical region is as follows:

	(SAR'000)						
2010	**Kingdom of Saudi Arabia**	**Other GCC and Middle East**	**Europe**	**North America**	**South East Asia**	**Other countries**	**Total**
ASSETS							
Cash and balances with SAMA	**1,428,989**	**476**	**5,732**	**6,884**	**-**	**-**	**1,442,081**
Due from banks and other financial institutions	**7,393,471**	**374,549**	**261,256**	**7,002**	**6,816**	**28**	**8,043,122**
Investments, net	**4,426,002**	**-**	**-**	**3,634,009**	**-**	**-**	**8,060,011**
Loans and advances, net	**31,001,899**	**-**	**-**	**-**	**-**	**-**	**31,001,899**
Investments in associates	**864,749**	**-**	**-**	**-**	**-**	**-**	**864,749**
Total	**45,115,110**	**375,025**	**266,988**	**3,647,895**	**6,816**	**28**	**49,411,862**

	(SAR'000)						
Commitments and contingencies	**4,358,085**	**217,047**	**273,897**	**285,526**	**443,084**	**1,700**	**5,579,339**

	(SAR'000)						
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	**2,052,300**	**43,409**	**70,003**	**231,668**	**88,617**	**340**	**2,486,337**
Derivatives	**8,771**	**915**	**1,832**	**-**	**-**	**-**	**11,518**

29. Geographical concentration - continued

2009	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
	(SAR'000)						
ASSETS							
Cash and balances with SAMA	1,508,512	962	7,378	11,053	-	-	1,527,905
Due from banks and other financial institutions	3,775,343	850,643	416,299	222,538	1,100	50	5,265,973
Investments, net	6,804,642	120,000	313,551	3,498,666	-	-	10,736,859
Loans and advances, net	29,763,979	-	-	-	20,825	-	29,784,804
Investments in associates	817,309	-	-	-	-	-	817,309
Total	42,669,785	971,605	737,228	3,732,257	21,925	50	48,132,850

	(SAR'000)						
Commitments and contingencies	4,089,149	194,403	186,925	246,753	203,151	607	4,920,988

	(SAR'000)						
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	1,692,811	39,027	49,248	191,154	40,694	122	2,013,056
Derivatives	32,526	12,584	6,866	-	-	-	51,976

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-statement of consolidated financial position liabilities into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The credit conversion factor is intended to capture the potential credit risk related to the exercise of that commitment.

b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as at December 31, 2010 and 2009 are entirely in the Kingdom of Saudi Arabia.

30. Market risk

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or banking-book.

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank currently has trading book exposures in foreign exchange contracts and commission rate swaps.

b) Market risk – banking book

Market risk on the banking book mainly arises from commission rate risk, liquidity risk, currency risk and equity price risk.

(i) Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions and can use hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated income statement or equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2010 and 2009, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2010 and 2009 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. All of the banking book exposures are monitored and analyzed by currency and relevant sensitivities are disclosed in SAR thousands.

2010		**SAR'000**	**Sensitivity of Equity (SAR'000)**				
Currency	**Increase (decrease) in basis**	**Sensitivity of net special commission income**	**6 months or less**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
SAR	**+5/-5**	**+9,879/-9,879**	-	-	**+156/-156**	**-**	**+156/-156**
USD	**+10/-10**	**+4,382/-4,382**	-	-	**+1,700/-1,700**	**+123/-123**	**+1,823/-1,823**
EUR	**+15/-15**	**+925/-925**	-	-	**-**	**-**	**-**

2009		SAR'000	Sensitivity of Equity (SAR'000)				
Currency	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SAR	+5/-5	+11,912/-11,912	-	-	+74/-74	-	+74/-74
USD	+10/-10	+4,252/-4,252	-	-	+685/-685	+1,230/-1,230	+1,915/-1,915
EUR	+15/-15	+684/-684	-	-	+470/-470	-	+470/-470

30. Market risk - continued

Commission rate sensitivity of assets, liabilities and off - balance sheet items:

The Bank manages exposure to the effects of various risks associated with fluctuations in prevailing levels of market commission rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate re-pricing that may be undertaken, which is monitored by the treasury department.

The tables below summarize the Bank's exposure to commission rate risks. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through commission rate risk management strategies.

	(SAR'000)					
2010	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non commission bearing**	**Total**
Assets						
Cash and balances with SAMA	**-**	**-**	**-**	**-**	**1,442,081**	**1,442,081**
Due from banks and other financial institutions	**8,043,122**	**-**	**-**	**-**	**-**	**8,043,122**
Investments, net	**4,821,863**	**119,700**	**2,011,447**	**123,243**	**983,758**	**8,060,011**
Loans and advances, net	**18,698,720**	**7,960,704**	**4,307,137**	**35,338**	**-**	**31,001,899**
Investments in associates	**-**	**-**	**-**	**-**	**864,749**	**864,749**
Property and equipment, net	**-**	**-**	**-**	**-**	**747,852**	**747,852**
Other assets	**-**	**-**	**-**	**-**	**1,331,519**	**1,331,519**
Total	**31,563,705**	**8,080,404**	**6,318,584**	**158,581**	**5,369,959**	**51,491,233**
Liabilities and equity						
Due to banks and other financial institutions	**3,652,257**	**1,243,756**	**-**	**-**	**-**	**4,896,013**
Customer deposits	**23,551,866**	**7,815,282**	**390,000**	**-**	**5,457,994**	**37,215,142**
Other liabilities	**-**	**-**	**-**	**-**	**738,704**	**738,704**
Term loan	**500,000**	**-**	**-**	**-**	**-**	**500,000**
Equity	**-**	**-**	**-**	**-**	**8,141,374**	**8,141,374**
Total	**27,704,123**	**9,059,038**	**390,000**	**-**	**14,338,072**	**51,491,233**
Commission rate sensitivity-On balance sheet	**3,859,582**	**(978,634)**	**5,928,584**	**158,581**	**(8,968,113)**	**-**
Commission rate sensitivity-Off balance sheet	**272,244**	**(272,244)**	**-**	**-**	**-**	**-**
Total commission rate sensitivity gap	**4,131,826**	**(1,250,878)**	**5,928,584**	**158,581**	**(8,968,113)**	**-**
Cumulative commission rate sensitivity gap	**4,131,826**	**2,880,948**	**8,809,532**	**8,968,113**	**-**	**-**

30. Market risk - continued

	(SAR'000)					
2009	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	1,527,905	1,527,905
Due from banks and other financial institutions	5,187,531	-	-	-	78,442	5,265,973
Investments, net	6,454,730	78,444	1,307,764	1,229,510	1,666,411	10,736,859
Loans and advances, net	10,167,157	7,178,398	10,753,026	1,686,223	-	29,784,804
Investments in associates	-	-	-	-	817,309	817,309
Property and equipment, net	-	-	-	-	706,645	706,645
Other assets	-	-	-	-	1,308,516	1,308,516
Total assets	21,809,418	7,256,842	12,060,790	2,915,733	6,105,228	50,148,011
Liabilities and equity						
Due to banks and other financial institutions	2,612,760	-	-	-	599,190	3,211,950
Customer deposits	26,678,951	6,233,620	243,114	3,155	5,088,589	38,247,429
Other liabilities	-	-	-	-	760,502	760,502
Term loan	500,000	-	-	-	-	500,000
Equity	-	-	-	-	7,428,130	7,428,130
Total liabilities and equity	29,791,711	6,233,620	243,114	3,155	13,876,411	50,148,011
Commission rate sensitivity-On balance sheet	(7,982,293)	1,023,222	11,817,676	2,912,578	(7,771,183)	-
Commission rate sensitivity-Off balance sheet	268,685	(268,685)	-	-	-	-
Total commission rate sensitivity gap	(7,713,608)	754,537	11,817,676	2,912,578	(7,771,183)	-
Cumulative commission rate sensitivity gap	(7,713,608)	(6,959,071)	4,858,605	7,771,183	-	-

The off-balance sheet gap position represents the net notional amounts of derivative financial instruments, which are used to manage commission rate risk.

(ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2010 and 2009 on its banking book assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR based on historical movements, with all other variables held constant, on the consolidated income statement (due to the fair value of the currency sensitive banking book assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in the consolidated income or equity, whereas a negative effect shows a potential net reduction in consolidated income or equity.

30. Market risk - continued

Currency Exposures As at December 31, 2010	**Change in Currency rate in %**	**Effect on Net Income (SAR'000)**	**Effect on Equity (SAR'000)**
USD	**-**	**-**	**-**
EUR	**+2.8/-2.8**	**+12,276/-12,276**	**-**
GBP	**+0.84/-0.84**	**-**	**-**

Currency Exposures As at December 31, 2009	Change in Currency rate in %	Effect on Net Income (SAR'000)	Effect on Equity (SAR'000)
USD	-	-	-
EUR	+1.4/-1.4	+6,458/-6,458	-
GBP	+2.3/-2.3	+279/-279	-

(iii) Currency position

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2010 SAR '000 Long/(short)	2009 SAR '000 Long/(short)
US Dollar	**47,575**	(146,313)
Euro	**6,100**	2,414
Pound sterling	**1,156**	136
Japanese yen	**147**	1,128
U.A.E Dirham	**6,033**	1,291
Others	**6,267**	7,569

(iv) Equity price risk

Equity risk refers to the risk of a decrease in fair values of equities in the Bank's investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as available for sale due to reasonable possible change in equity indices, with all other variables held constant, is as follows:

	December 31, 2010		December 31, 2009	
Market Indices	**Change in equity price %**	**Effect in SAR'000**	Change in equity price %	Effect in SAR'000
Tadawal	**+17/-17**	**+100,469/-100,469**	+25/-25	+321,567/-321,567
NASDAQ	**+10/-10**	**+3,043/-3,043**	+5/-5	+4,063/-4,063
Unquoted	**+5/-5**	**+556/-556**	+5/-5	+2,432/-2,432

31. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by The Asset Liability Management Committee. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to The Asset Liability Management Committee.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2009: 7%) of total demand deposits and 4% (2009: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

a) Expected contractual maturity profile of assets and liabilities.

The table below summarizes the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the bank manages the inherent liquidity risk based on expected undiscounted cash inflows for both contractual and non-contractual positions.

	(SAR'000)					
2010	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	-	-	-	-	1,442,081	1,442,081
Due from banks and other financial institutions	7,962,295	-	-	-	80,827	8,043,122
Investments, net	69,031	1,511,961	4,750,975	743,458	984,586	8,060,011
Loans and advances, net	12,586,749	7,561,157	10,144,677	709,316	-	31,001,899
Investments in associates	-	-	-	-	864,749	864,749
Property and equipment, net	-	-	-	-	747,852	747,852
Other assets	-	-	-	-	1,331,519	1,331,519
Total assets	20,618,075	9,073,118	14,895,652	1,452,774	5,451,614	51,491,233
Liabilities and equity						
Due to banks and other financial institutions	3,585,948	1,243,756	-	-	66,309	4,896,013
Customer deposits	21,336,666	8,022,435	390,000	-	7,466,041	37,215,142
Other liabilities	-	-	-	-	738,704	738,704
Term loan	-	-	500,000	-	-	500,000
Equity	-	-	-	-	8,141,374	8,141,374
Total liabilities and equity	24,922,614	9,266,191	890,000	-	16,412,428	51,491,233
Derivatives, commitments and contingencies	2,685,085	2,877,408	2,067,060	54,480	-	7,683,033

31. Liquidity risk – continued

	(SAR'000)					
2009	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	-	-	-	-	1,527,905	1,527,905
Due from banks and other financial institutions	5,187,531	-	-	-	78,442	5,265,973
Investments, net	692,941	1,114,516	4,624,358	2,638,633	1,666,411	10,736,859
Loans and advances, net	9,429,712	5,457,331	11,361,629	3,536,132	-	29,784,804
Investment in associates	-	-	-	-	817,309	817,309
Property and equipment, net	-	-	-	-	706,645	706,645
Other assets	-	-	-	-	1,308,516	1,308,516
Total assets	15,310,184	6,571,847	15,985,987	6,174,765	6,105,228	50,148,011
Liabilities and equity						
Due to banks and other financial institutions	2,612,760	-	-	-	599,190	3,211,950
Customer deposits	24,969,718	6,233,620	243,114	3,155	6,797,822	38,247,429
Other liabilities	-	-	-	-	760,502	760,502
Term loan	-	-	500,000	-	-	500,000
Equity	-	-	-	-	7,428,130	7,428,130
Total liabilities and equity	27,582,478	6,233,620	743,114	3,155	15,585,644	50,148,011
Derivatives, commitments and contingencies	3,952,471	1,617,226	2,404,087	249,130	-	8,222,914

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The cumulative maturities of commitments and contingencies is given in note 18c(i) of the consolidated financial statements.

b) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2010 and 2009 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, the totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date that the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31. Liquidity risk – continued

The undiscounted maturity profile of financial liabilities is as follows:

	(SAR'000)					
2010	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Non derivatives liabilities	**24,922,614**	**9,266,191**	**890,000**	**-**	**7,532,350**	**42,611,155**
Derivatives	**598,834**	**972,548**	**532,262**	**50**	**-**	**2,103,694**
Total	**25,521,448**	**10,238,739**	**1,422,262**	**50**	**7,532,350**	**44,714,849**

	(SAR'000)					
2009	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Non derivatives liabilities	27,582,478	6,233,620	743,114	3,155	7,397,012	41,959,379
Derivatives	2,432,694	-	869,125	107	-	3,301,926
Total	30,015,172	6,233,620	1,612,239	3,262	7,397,012	45,261,305

32. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking):

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data: and

Level 3: valuation techniques for which any significant input is not based on observable market data.

32. Fair values of financial assets and liabilities - continued

The following table shows an analysis of financial instruments recorded at fair value as at December 31, 2010 and 2009 by level of the fair value hierarchy.

	SAR '000			
2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Forward foreign exchange contracts	**-**	**1,074**	**-**	**1,074**
Financial investments available for sale	**5,023,578**	**1,660,863**	**207,728**	**6,892,169**
Total	**5,023,578**	**1,661,937**	**207,728**	**6,893,243**
Financial liabilities:				
Forward foreign exchange contracts	**-**	**209**	**-**	**209**
Total	**-**	**209**	**-**	**209**

	SAR '000			
2009	Level 1	Level 2	Level 3	Total
Financial assets:				
Forward foreign exchange contracts	-	2,247	-	2,247
Financial investments available for sale	5,264,562	3,900,750	291,883	9,457,195
Total	5,264,562	3,902,997	291,883	9,459,442
Financial liabilities:				
Forward foreign exchange contracts	-	6,668	-	6,668
Total	-	6,668	-	6,668

The fair values of on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, held to maturity investments, commission bearing customers' deposits, term loan, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

The estimated fair values of held-to-maturity investments are based on quoted market prices when available or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 6.

The fair values of derivatives and other off-balance sheet financial instruments are based on quoted market prices when available or by using appropriate valuation models. The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation models, is SAR 22 million (2009: SAR 6 million).

The value obtained from the relevant valuation model may differ with the transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses.

33. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

i) The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2010 SAR'000	2009 SAR'000
Foreign shareholders:		
Due from banks and other financial institutions	**84,939**	39,093
Due to banks and other financial institutions	**15,965**	90
Commitments and contingencies	**400,824**	663,087
Associates:		
Loans and advances, net	**-**	38,000
Customer deposits	**355,567**	419,723
Commitments and contingencies	**81,709**	113,070
Directors, key management personnel, other major Saudi shareholders and their affiliates:		
Investments	**34,878**	120,159
Loans and advances, net	**4,157,918**	4,073,442
Due to banks and other financial institutions	**1,000,000**	37,616
Customer deposits	**5,704,312**	5,664,428
Commitments and contingencies	**1,533,233**	972,919
Bank's mutual funds and employees' post-employment benefit plan:		
Investments	**117,669**	361,673
Customer deposits	**30,943**	34,916

Other major Saudi shareholders represent shareholdings (excluding the foreign shareholders) of 5% or more of the Bank's issued share capital.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

ii) Income and expense pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2010 SAR'000	2009 SAR'000
Special commission income	**247,249**	242,159
Special commission expense	**74,162**	147,037
Fees from banking services, net	**45,010**	57,930
Directors' remuneration	**2,886**	2,534

33. Related party transactions - continued

iii) The total amount of compensation charged or paid to directors and key management personnel during the year is as follows:

	2010 SAR'000	2009 SAR'000
Short-term employee benefits	**12,085**	16,097
Post-employment benefits	**890**	1,820

34. Capital adequacy

The Bank's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Bank's ability to continue as a going concern, and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement of 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position assets, commitments, and notional amount of derivatives, at a weighted amount to reflect their relative risk.

	2010 SAR'000	2009 SAR'000
Credit Risk RWA	**41,785,321**	46,232,523
Operational Risk RWA	**2,979,299**	2,921,939
Market Risk RWA	**123,125**	485,475
Total Pillar- I RWA	**44,887,745**	49,639,937
Tier I Capital	**7,706,702**	7,019,475
Tier II Capital	**52,311**	169,252
Total Tier I & II Capital	**7,759,013**	7,188,727
Capital Adequacy Ratio %		
Tier I Ratio	**17.17%**	14.14%
Tier I + Tier II Ratio	**17.29%**	14.48%

35. Investment management and brokerage services

The Bank offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totaling SAR 4,473 million (2009: SAR 5,345 million). This includes funds managed under Shariah approved portfolios amounting to SAR 1,176 million (2009: SAR 1,346 million).

36. Employee stock option shares

The Bank has share-based payment plans outstanding at the end of the year. Significant features of the plans are as follows:

Grant date: January 1, 2008 and January 1, 2009
Maturity date: Between 2010 and 2013
Vesting period: 4 years per plan
Vesting conditions: participating employees to remain in service
Method of settlement: Equity

The stock options outstanding as at December 31, 2010 have a weighted average contractual life between two and four years.

The stock options are granted only under a service condition with no market condition.

In January 2010, the Bank has vested 50% of the shares granted in January 2008 equivalent to 376,245 shares with an estimated cost of SR 16.7 million. The cost to participating employees is SR 5 per share.

37. Issued IFRS but not yet effective

The Bank has chosen not to early adopt IFRS 9, “Financial Instruments” which has been published and is mandatory for compliance for the Bank’s fiscal year beginning January 1, 2013. The Bank is currently assessing the implication of the standard on the Group and the timing of its adoption.

38. Comparative figures

Certain prior year figures have been reclassified to conform to the current year presentation.

39. Board of Director’s approval

The financial statements were approved by the Board of Directors on Safar 22, 1432H corresponding to January 26, 2011.

40. Basel II Pillar 3 disclosures (unaudited)

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures will be made available on the Bank’s website **www.saib.com.sa** as required by the Saudi Arabian Monetary Agency. Such disclosures are not subject to review nor audit by the external auditors.